

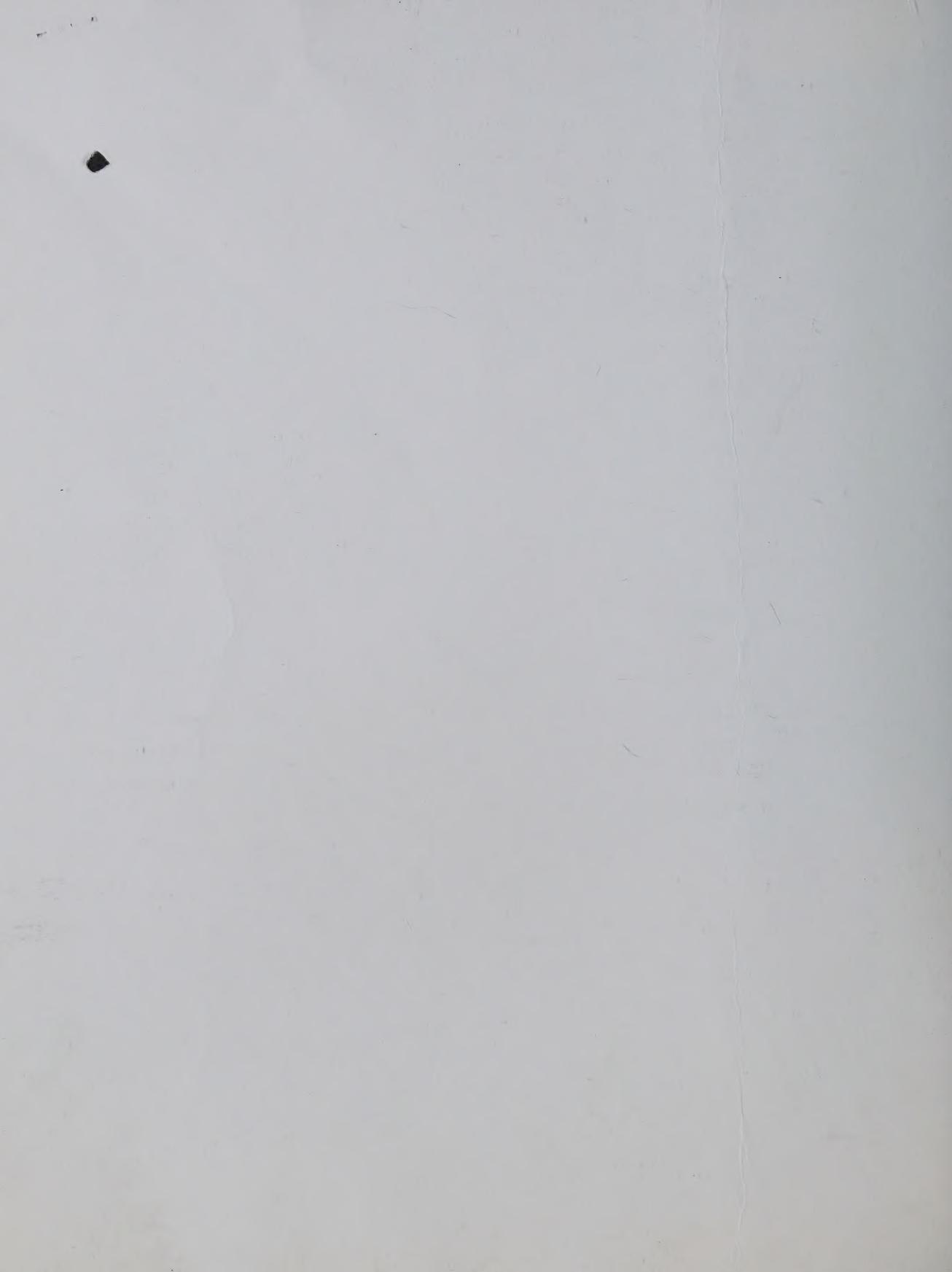
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**DOMINION-SCOTTISH
INVESTMENTS
LIMITED**



**Forty- Third
ANNUAL REPORT
December 31, 1971**



DOMINION-SCOTTISH INVESTMENTS LIMITED

44 King Street West, Toronto 105, Ontario

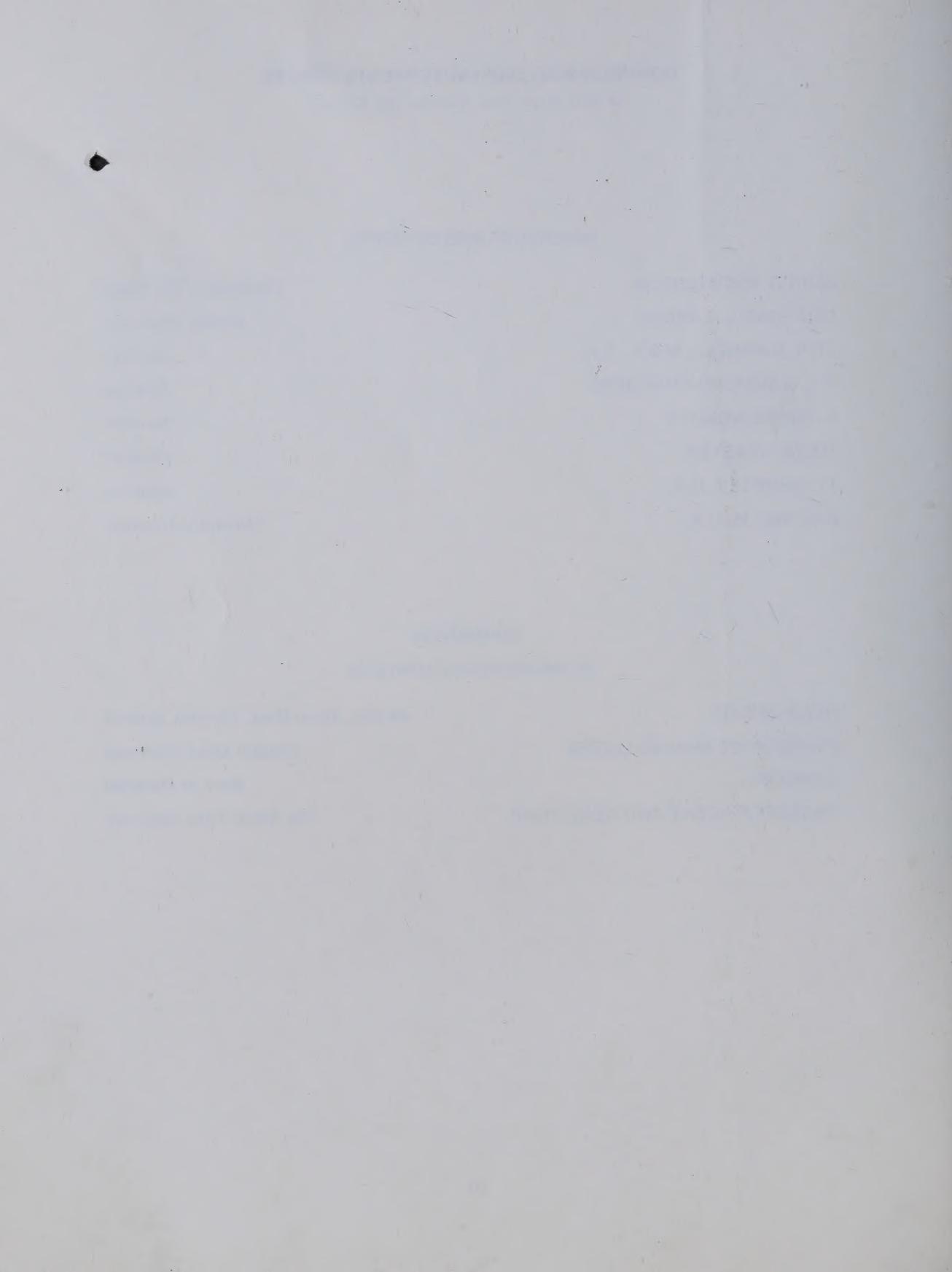
DIRECTORS AND OFFICERS

JOHN O. McCUTCHEON	<i>Chairman of the Board</i>
CLIFFORD L. LAROCK	<i>Deputy Chairman</i>
J.G.S. GAMMELL, M.B.E., C.A.	<i>Director</i>
R.A. HAMMOND-CHAMBERS	<i>Director</i>
A. DEANE NESBITT	<i>Director</i>
J.D. MUNCASTER	<i>Director</i>
J.L. SHORTLY, C.A.	<i>Director</i>
R.W. INGLIS, C.A.	<i>Secretary-Treasurer</i>

MANAGERS

PEMBROKE MANAGEMENT LTD.

HEAD OFFICE	<i>44 King Street West, Toronto, Ontario</i>
PREFERENCE SHARES LISTED	<i>Toronto Stock Exchange</i>
BANKERS	<i>Bank of Montreal</i>
TRANSFER AGENT AND REGISTRAR	<i>The Royal Trust Company</i>



DIRECTORS' REPORT TO THE SHAREHOLDERS

OFFER FOR COMMON SHARES

On 10th December, 1971 an offer to purchase all of the common shares was made by Great Britain & Canada Investments Limited. The offering price was \$16.00 per common share, representing approximately 95% of the net asset value per share on 6th December, 1971. When the offer expired on 31st December, 1971 more than 95% of the common shares had been tendered. As a result, Dominion-Scottish is now a subsidiary of Great Britain & Canada Investments Limited.

NET ASSET VALUE

At 31st December, 1971 net asset value per preference share amounted to \$264.00.

Net asset value per common share advanced from \$14.87 at 31st December, 1970 to \$17.79 at the end of 1971. This increase of 19.6% compares favourably with a corresponding increase of 4.1% in the Toronto Stock Exchange Industrial Index and 6.1% in the Dow-Jones Industrial Average. With the recent strength in equity markets a further improvement in net asset value has occurred.

EARNINGS AND DIVIDENDS

In 1971 net earnings available for payment of dividends on the 60,000 preference shares outstanding amounted to \$303,317 which is approximately twice the annual preference dividend requirement of \$150,000.

Net earnings available for the common shares in 1971 amounted to 21¢ per share. It should be noted, however, that earnings were increased by approximately 5¢ per share due to a change in accounting practice. Your Directors decided that, for the first time, interest on term deposits should be accrued to 31st December, 1971 and that dividends declared but not paid on your company's investments should be set up as receivables if they had been quoted ex-dividend on or prior to 31st December, 1971. This change, which is consistent with the practice followed in previous years by Great Britain & Canada Investments Limited, increased the Trust's gross revenue by \$37,830. The earnings per common share in 1970, on which year-end income was not accrued, amounted to 19¢ per share.

Dividends paid on the common shares amounted to 24¢ per share in 1971 compared to

32¢ in 1970. In view of the offer by Great Britain & Canada Investments Limited, your Board decided not to declare the quarterly dividend payable at the end of 1971.

TAX REFORM

The long-awaited Tax Reform Bill (C259) was tabled in the House of Commons on 18th June, 1971. After considerable discussion it received Royal Assent on 23rd December, 1971 and came into effect on 1st January, 1972. The effects of the new Income Tax Act on Dominion-Scottish and its shareholders are not yet entirely clear. The position of the preference shareholders should not be greatly changed although the tax payable by each shareholder on his preference dividends will be affected, to some extent, depending on his maximum rate of tax.

REVIEW AND OUTLOOK

The year 1971 was one of satisfactory progress for the economies of both Canada and the United States. In Canada the Gross National Product is estimated to have advanced 9.1% of which 3.7% was accounted for by inflation. In the U.S. the total growth in GNP was 7.4% of which 4.7% was due to inflation. The Canadian economy thus demonstrated a better performance both in terms of real growth and in degree of inflation.

For 1972 further gains are projected. In real terms these are expected to be in the range of 5-7% for both economies. The imposition of wage and price controls in the U.S. has brought inflation under some measure of control and the outlook for the current year is for an increase in prices in the U.S. of no more than 3-1/2%. In this country prices are now rising faster than in the U.S. and inflation remains a very serious problem.

Increases in the money supply were substantial in 1971; approximately 16% and 11% in Canada and the U.S. respectively. Very rapid increases continued into 1972 particularly in Canada where generous central bank accommodation has been extended to counteract the strength of the Canadian dollar. These rates of increase in the money supply cannot be sustained throughout the year. On the other hand the demand for credit is beginning to accelerate, and will continue to expand if the economies grow at the projected rates. In this environment an

increase in short term interest rates appears most probable.

Fortunately, savings rates remained at a high level throughout 1970 and 1971, permitting a major rebuilding of corporate and personal liquidity in both Canada and the U.S. and the resolution late in 1971 of the international monetary crisis has much diminished a potential source of acute pressure on financial markets. Meanwhile the imminence of the U.S. Presidential election in November and perhaps a Federal election in Canada this summer would suggest a continuation of a constructive environment for economic growth.

It seems improbable that either the supply of funds or the prospects for economic growth will deteriorate to the point where they have a negative impact on equity prices. The outlook for the stock markets in 1972 thus remains favourable despite the substantial advances recently posted.

INVESTMENT POLICY

In line with the comments made above a policy of being fully invested in equities is deemed to be appropriate at this time and the cash position of 31st December has been eliminated. Emphasis has been placed on service industries and on companies producing consumer durables; these groups appear to be particularly attractive in view of the expected surge in consumer spending. The demand for energy sources, particularly natural gas, is becoming intense and positions have also been acquired in certain companies which stand to benefit from this trend.

In view of the acquisition of control of this company by Great Britain & Canada, and the change in the composition of the Board of Directors which ensued, it is perhaps appropriate to make a few general comments on investment philosophy. It is the new Board's intention that Dominion-Scottish should continue to pursue essentially the same policy as in the recent past, namely to seek consistent long term growth of capital and income. The basic policy will be to remain relatively fully invested in the shares of companies which have the capacity of growing more rapidly than the North American economy as a whole. From time to time this policy will be modified when equity markets appear vulnerable and a cash reserve appears desirable. The portfolio will also continue to hold certain investments to provide an assured source of income even though they may lack the growth characteristics normally required.

BOARD OF DIRECTORS

Subsequent to the acquisition of control by Great Britain & Canada Investments Limited there have been a number of changes in the Board of Directors of this company. To replace those who have resigned the following have been elected to the Board of Directors: -

J.O. McCutcheon R.A. Hammond-Chambers
C.L. Larock A. Deane Nesbitt

and Messrs. McCutcheon and Larock were appointed Chairman and Deputy Chairman respectively.

At the Special and Annual General Meeting certain by-laws will be presented for approval, one of which provides amongst other things for annual election of directors to conform with modern corporate practice. Under the existing by-laws directors are elected for two year terms. Another by-law, if sanctioned, will reduce the Board from eight to seven members and it will thus be necessary to elect only seven directors at the Meeting. The four gentlemen listed above and Mr. J.G.S. Gammell will be nominated for re-election. Messrs. J.S. Lane and D.B. McCaskill have consented to serve on the Board and will also be nominated for election as directors in place of Messrs. J.D. Muncaster and J.L. Shortly, who are not standing for re-election.

Your Directors wish to record their appreciation of the many years of service given by those Directors who were in office before the change in control of the Company.

SUTTON VENTURES LTD.

Subsequent to the year-end this company's 24.5% interest in Sutton Ventures was sold to Great Britain & Canada which now holds all of Sutton's outstanding shares. The price of \$14.32 per share was the same as that accepted by the only other shareholder. This represents a useful appreciation over the book cost of \$10.00 per share.

SPECIAL AND ANNUAL MEETING

The Special and Annual Meeting of Shareholders has been called for Friday, 29th April, 1972 in Montreal, where, if the shareholders approve the relevant by-law, the Head Office will be situated.

Toronto, Canada
March 20, 1972

On behalf of the Board
John O. McCutcheon,
Chairman

DOMINION-SCOTTISH INVESTMENTS LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET

as at December 31,

	1971	1970
ASSETS		
Current Assets		
Cash and short-term deposit receipts	\$ 4,186,009	\$ 927,000
Receivable for securities sold	4,826	266,914
Accrued income on investments (note 3)	37,830	
	4,228,665	1,193,914
Investments		
Investments at quoted market value	11,833,945	13,252,311
(Cost—1971-\$10,347,291; 1970-\$13,763,094)		
	\$16,062,610	\$14,446,225
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accrued expenses	\$ 36,730	\$ 13,566
Due to brokers for securities purchased	183,869	672,037
Income taxes payable	5,559	2,763
	226,158	688,366
Shareholders' Equity:		
Capital Stock—		
Preference—		
Authorized—		
76,730 5% cumulative, redeemable (at \$52.50) preference shares, par value \$50 each		
Issued—		
60,000 shares	3,000,000	3,000,000
Common—		
Authorized—		
1,200,000 common shares of no par value		
Issued—		
713,224 shares	2,979,493	2,979,493
Accumulated surplus on sale of investments	8,172,938	8,073,925
Retained earnings	197,367	215,224
Unrealized appreciation (depreciation) of investments	1,486,654	(510,783)
Total shareholders' equity	\$15,836,452	\$13,757,859
	\$16,062,610	\$14,446,225

On behalf of the Board:

J.O. McCUTCHEON, Director

C.L. LAROCK, Director

DOMINION-SCOTTISH INVESTMENTS LIMITED

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the years ended December 31

	<u>1971</u>	<u>1970</u>
Income (note 3)		
Dividends from taxable Canadian corporations	\$ 323,863	\$ 310,324
Dividends from other corporations	85,168	77,156
Interest	24,819	12,392
	<u>433,850</u>	<u>399,872</u>
 Expenses		
Administrative expenses	29,623	27,503
Investment management fees	41,078	17,988
Directors' fees	14,900	13,723
Interest paid	1,757	22,368
Bank charges	2,407	1,657
Transfer agent, registrar, legal and audit fees	8,768	6,880
	<u>98,533</u>	<u>90,119</u>
 Earnings before Income Taxes	<u>335,317</u>	<u>309,753</u>
Provision for Income Taxes	<u>32,000</u>	<u>26,500</u>
 Net Earnings (per common share: 1971-\$0.21; 1970-\$0.19)	<u>303,317</u>	<u>283,253</u>
Retained Earnings at Beginning of Year	<u>215,224</u>	<u>310,203</u>
	<u>518,541</u>	<u>593,456</u>
 Deduct:		
Dividends paid—		
On preference shares at the rate of \$2.50 per share	150,000	150,000
On common shares at the rate of \$0.24 per share in 1971 and \$0.32 per share in 1970	171,174	228,232
	<u>321,174</u>	<u>378,232</u>
 Retained Earnings at End of Year	<u>\$ 197,367</u>	<u>\$ 215,224</u>

DOMINION-SCOTTISH INVESTMENTS LIMITED

STATEMENTS OF ACCUMULATED SURPLUS ON SALE OF INVESTMENTS,
UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS AND
CHANGES IN NET ASSETS

For the years ended December 31

ACCUMULATED SURPLUS ON SALE OF INVESTMENTS

	<u>1971</u>	<u>1970</u>
Balance at Beginning of Year	\$ 8,073,925	\$ 7,938,699
Net Gain on Disposal of Investments	<u>99,013</u>	<u>135,226</u>
Balance at End of Year	<u>\$ 8,172,938</u>	<u>\$ 8,073,925</u>

UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS

Balance at Beginning of Year	\$ (510,783)	\$ 2,954,383
Net increase (decrease) for the Year	<u>1,997,437</u>	<u>(3,465,166)</u>
Balance at End of Year	<u>\$ 1,486,654</u>	<u>\$ (510,783)</u>

CHANGES IN NET ASSETS

Net Assets at Beginning of Year	<u>\$13,757,859</u>	<u>\$17,182,778</u>
Add		
Net income for year	303,317	283,253
Net gain on disposal of investments		
(proceeds 1971-\$7,863,887; 1970-\$5,703,479)	99,013	135,226
Increase in unrealized appreciation of investments	<u>1,997,437</u>	<u> </u>
	<u>2,399,767</u>	<u>418,479</u>
Deduct		
Dividends paid on preference and common shares	321,174	378,232
Decrease in unrealized appreciation of investments	<u> </u>	<u>3,465,166</u>
	<u>321,174</u>	<u>3,843,398</u>
Net increase (decrease) for Year	<u>2,078,593</u>	<u>(3,424,919)</u>
Net Assets at End of Year	<u>\$15,836,452</u>	<u>\$13,757,859</u>

DOMINION-SCOTTISH INVESTMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1971

1. The company's investments are stated at market value at December 31, 1971 to facilitate the computation of net asset value on a market basis at that date. In the books of the company, however, investments are stated at cost and not adjusted for fluctuations in market value.
2. Amounts included in the financial statements which originated in foreign currencies have been translated at the rate of exchange as at December 31, 1971, and for transactions throughout the year at the rates of exchange in effect at the time of the individual transactions.
3. At December 31, 1971 accrued income on investments was included as an asset on the balance sheet and included in income for the year. In prior years accrued income had not been taken into earnings until received. As a result of this change net earnings after applicable income taxes were increased by \$34,830, i.e. \$.05 per common share.

AUDITORS' REPORT

To the Shareholders

Dominion-Scottish Investments Limited

We have examined the balance sheet of Dominion-Scottish Investments Limited as at December 31, 1971 and the statements of earnings and retained earnings, accumulated surplus on sale of investments, unrealized appreciation (depreciation) of investments and changes in net assets for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles which, except for the change to include accrued income on investments in 1971 earnings, as referred to in note 3 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
January 26, 1972

RIDDELL, STEAD & CO.
Chartered Accountants.

DOMINION-SCOTTISH INVESTMENTS LIMITED

PORTFOLIO AS AT DECEMBER 31, 1971

PREFERRED SHARES (2.14% of net assets)

	Number of Shares	Market Value
Great Britain and Canada Investments Ltd.		
2nd Preference of \$2 p.v.	2,414	\$ 4,828
Overland Express Ltd. Non-Voting Second Pref.	75,000	<u>333,750</u>
		<u>\$ 338,578</u>

COMMON AND CONVERTIBLE PREFERRED SHARES (72.59% of net assets)

BANKS (9.81% of net assets)

Bank of Montreal	30,000	\$ 547,500
Royal Bank of Canada	15,000	423,750
Toronto-Dominion Bank	20,000	<u>582,500</u>
		<u>\$1,553,750</u>

BUSINESS EQUIPMENT (2.13% of net assets)

International Business Machines Corp.	1,000	\$ 336,546
		<u>\$ 336,546</u>

FINANCIAL (10.13% of net assets)

Great Britain and Canada Investments Ltd.	11,000	\$ 206,250
National Trust Co. Ltd.	15,000	472,500
Sutton Ventures Ltd.	65,000	<u>924,950</u>
		<u>\$1,603,700</u>

FOOD AND BEVERAGE (5.92% of net assets)

T.G. Bright & Co., Limited	60,000	\$ 937,500
		<u>\$ 937,500</u>

GENERAL MANUFACTURING (2.94% of net assets)

I.W.C. Industries Ltd.	100,000	\$ 180,000
Toromont Industrial Holdings Ltd.	210,000	283,500
Toromont Industrial Holdings Ltd. "Warrants"	40,000	<u>2,000</u>
		<u>\$ 465,500</u>

MERCHANDISING (9.38% of net assets)

Koffler Stores Limited	20,000	\$ 315,000
Peoples Department Stores Ltd.	80,000	920,000
Tamblyn Ltd., G..	13,000	<u>251,060</u>
		<u>\$1,486,060</u>

COMMON AND CONVERTIBLE PREFERRED SHARES (Continued)

	Number of Shares	Market Value
METALS AND MINING (4.20% of net assets)		
British Columbia Molybdenum Ltd. "Warrants"	10,000	\$ 3,000
Dynasty Explorations Ltd.	50,000	292,500
Hollinger Mines Limited	10,000	<u>370,000</u>
		<u>\$ 665,500</u>
PAPER AND FOREST PRODUCTS (6.58% of net assets)		
Crows Nest Industries Ltd.	15,395	\$ 461,850
Revelstoke Building Materials Ltd.	40,000	<u>580,000</u>
		<u>\$ 1,041,850</u>
PETROLEUM AND PIPELINES (9.35% of net assets)		
Imperial Oil Limited.	10,000	\$ 311,250
Pennzoil Gas Operators "B"	30,000	300,375
United Gas Co.	25,000	444,305
Williams Co.	10,000	<u>425,531</u>
		<u>\$ 1,481,461</u>
PRINTING AND PUBLISHING (4.16% of net assets)		
British American Bank Note Co. Ltd.	15,000	\$ 202,500
Moore Corporation Ltd.	12,000	<u>456,000</u>
		<u>\$ 658,500</u>
UTILITIES (7.99% of net assets)		
Bell Canada	20,000	\$ 930,000
Trans Canada Pipe "A" Conv. Pref.	5,000	<u>335,000</u>
		<u>\$ 1,265,000</u>
TOTAL COMMON AND CONVERTIBLE PREFERRED SHARES		<u>\$11,495,367</u>

SUMMARY

	Market Value	% of Net Assets
Preferred Shares	\$ 338,578	2.14%
Common and Convertible Preferred Shares	11,495,367	72.59
Cash and Cash Items (Net)	<u>4,002,507</u>	<u>25.27</u>
TOTAL NET ASSETS	<u>\$15,836,452</u>	<u>100.00%</u>

Ten-Year Financial Summary

Year Ended Dec. 31	Gross Income	Interest	Other Expenses	Income Taxes	Net Income	Total Net Assets	Funded Debt and Preference Shares*	Available for Common Shares*	Asset Value per Common Share
1962	369,870	51,927	37,229	10,000	270,714	10,458,791	4,650,000	5,808,791	10.85
1963	403,080	50,714	36,383	10,700	305,283	11,518,886	4,650,000	6,868,886	12.84
1964	449,532	80,446	35,558	10,700	322,828	13,568,928	5,150,000	8,418,928	15.74
1965	585,728	81,398	46,707	23,000	434,623	17,135,930	5,150,000	11,985,930	16.80
1966	637,736	81,055	50,328	22,000	484,383	15,625,561	5,150,000	10,475,561	14.69
1967	629,557	80,747	50,356	23,000	475,454	17,438,583	5,150,000	12,288,583	17.23
1968	545,571	83,456	64,254	33,000	364,861	21,496,005	5,150,000	16,346,005	22.92
1969	503,543	106,119	91,190	32,000	274,234	17,182,778	3,150,000	14,032,778	19.68
1970	399,872	22,368	67,751	26,500	283,253	13,757,859	3,150,000	10,607,859	14.87
1971	433,850†	1,757	96,776	32,000	303,317	15,836,452	3,150,000	12,686,452	17.79

*Preference shares at redemption price of \$52.50.

†On an accrual basis.



